

FOREIGN POLICY REPORTS

August 1, 1941

Britain's Wartime Economy, 1940-41

BY JAMES FREDERICK GREEN

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

MIDSTON HOUSE, 22 EAST 38th STREET, NEW YORK, N. Y.

VOLUME XVII NUMBER 10 25¢ a copy \$5.00 a year

Britain's Wartime Economy, 1940-41

BY JAMES FREDERICK GREEN

The economic, social and political changes required by total war in the past two years have transformed much of the life of Great Britain.¹ Many of these war developments are of immediate interest to the United States, where defense preparations are advancing under the "unlimited national emergency." Despite the obvious differences between Britain and America, especially with regard to Britain's vulnerability to air attack and its dependence on imports, there exist in the two countries many similar problems of economic mobilization, social security and political organization. Since it is obviously impossible to discuss in detail all the extraordinary developments that have taken place in Britain's home front, particularly since Dunkirk, this REPORT is confined to an analysis of the major economic trends in wartime Britain of interest to the American public.

INDUSTRY

Since the outbreak of war Britain has sought to convert its industrial production from a peacetime to a wartime basis. Although statistics regarding output are unavailable, it is generally agreed that steady and often striking progress has been made, despite occasional setbacks caused by air raids.²⁻¹¹ Perhaps the most rapid acceleration occurred during the summer of 1940, when the crisis resulting from the fall of France coincided with the completion of many new arms factories. Lord Beaverbrook, Minister of Aircraft Production, used drastic and often ruthless methods to turn out fighter planes, probably at considerable cost to the Government's long-term production schedule. In March 1941 Lord Beaverbrook declared that

1. This is the first of two reports on wartime changes in Great Britain. For previous surveys of Britain's war economy, see J. F. Green, "Economic Mobilization of Great Britain," *Foreign Policy Reports*, July 1, 1939; J. C. deWilde, J. F. Green and H. J. Trueblood, "Europe's Economic War Potential," *ibid.*, October 15, 1939; D. H. Popper and J. C. deWilde, "Wartime Economy of Britain and France," *ibid.*, July 15, 1940; and J. F. Green, D. H. Popper, and J. C. deWilde, "U.S. Aid to Britain," *ibid.*, January 1, 1941.

2-11. Green, Popper and deWilde, "U.S. Aid to Britain," cited, pp. 243-45. Although the actual damage done to military and economic objectives is kept secret, most American observers report that even the largest night raids have often been surprisingly ineffective, except for dislocating civilian life.

Britain's airplane reserves were at an all-time peak, and that airplane production had achieved a record in the preceding month.¹² Tank and gun production in the last quarter of 1940, according to another Government spokesman, was exceeded by 50 per cent in the first quarter of 1941 and 100 per cent in the second quarter.¹³ In a two-day debate in July 1941 on economic mobilization, however, the Government was sharply criticized for lack of efficiency by many members of the House of Commons, including members of the armed forces, who charged that shortages of tanks, planes and anti-aircraft guns had caused excessive casualties to Empire forces in Greece, Crete and elsewhere.¹⁴

To expedite production, especially as factories begun in 1939 and 1940 come into service, it has become increasingly necessary to extend governmental controls over the entire national economy, to transfer plant and labor from "non-essential" industries, and to curtail civilian consumption. To a far greater extent than in the World War, every aspect of Britain's economy—including imports, shipping, foreign exchange and investment, raw materials, labor, agriculture and prices—is controlled and directed by the Government.¹⁵ Outstanding among the many new methods used since the fall of France to restrict civilian consumption and expand armament production have been the following: limitation of supplies, wholesale purchase tax, concentration of production, and rationing of clothing.

Limitation of Supplies. The Government at intervals has imposed "Limitation of Supplies Orders" to curtail the distribution of raw materials and manufactures not essential to the war effort or the export trade, and to conserve shipping and

12. *New York Herald Tribune*, March 24, 1941.

13. Mr. Harold MacMillan, Parliamentary Secretary to the Ministry of Supply. *Ibid.*, July 10, 1941.

14. Lieutenant Rupert A. Brabner of the Royal Navy and Artillery Captain James Henderson Stewart, *ibid.* Prime Minister Churchill had previously admitted that lack of anti-aircraft guns had compelled the R.A.F. to withdraw from Crete. *The New York Times*, June 11, 1941.

15. For background, see Popper and deWilde, "Wartime Economy of Britain and France," cited, pp. 110-13. For a recent survey, see "Some Aspects of British War Economy," Institute of International Finance of New York University, *Bulletin* No. 116, July 21, 1941.

FOREIGN POLICY REPORTS, VOLUME XVII, NUMBER 10, AUGUST 1, 1941

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 22 East 38th Street, New York, N. Y., U.S.A. FRANK ROSS MCCOY, President; WILLIAM T. STONE, Vice President and Washington representative; VERA MICHELES DEAN, Editor and Research Director; HELEN TERRY, Assistant Editor. Research Associates: T. A. BISSEY, A. RANDLE ELLIOTT, LOUIS E. FRECHTLING, JAMES FREDERICK GREEN, HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, JOHN C. DEWILDE. Subscription Rates: \$5.00 a year; to F.P.A. members \$3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

foreign exchange.¹⁶ The supply of iron and steel, cotton, wool, silk, leather, aluminum, timber, paper and many other commodities have been rigorously rationed to manufacturers and retailers. In April 1940 wholesalers of manufactured cotton and rayon piece goods were ordered to limit their sales in the following six months to 75 per cent of the quantity sold in the same period of 1939, while sales of linen goods were restricted to 25 per cent.¹⁷ Further restrictions were subsequently introduced until the quotas for April-September 1940, in comparison with April-September 1939, were set as follows: cotton and linen, 20 per cent; wool, 30 per cent; and rayon, 40 per cent. Provision was also made in June 1940 to restrict the supply of certain goods to two-thirds the value of such goods supplied during the corresponding period of 1939, including carpets, pottery, trunks, bags, and many articles of clothing. A later order, effective December 1, 1940, restricted the supply of a wide range of goods to 25 per cent of the value sold in the preceding year, and others to 33⅓ or 50 per cent. Many manufactures disappeared from the market, including motor cars for private use. In July 1940 the automobile industry, less important a factor in the national economy than in the United States, was forbidden to produce except for export.¹⁸

Wholesale Purchase Tax. Since even these drastic provisions did not adequately curtail civilian consumption, the Chancellor of the Exchequer, Sir Kingsley Wood—in introducing a supplementary budget on July 23, 1940—announced a “purchase tax,” to be imposed on wholesale dealers. A standard tax of 33⅓ per cent was enacted on most of the articles normally consumed by the civilian population, except foodstuffs.¹⁹ A reduced rate of 16⅔ per cent was imposed on clothing and footwear, china, porcelain, and glassware for household use; domestic hollow-ware; and certain drugs and medicines. A number of articles, however, were exempted from the wholesale purchase tax, including children’s clothing and footwear; miners’ equipment; certain scientific equipment; essential drugs of an exceptionally costly character; and tram cars, omnibuses, ambulances and certain other vehicles. After prolonged consultations between the Government and the representatives of 40,000 wholesalers, the purchase tax went into ef-

fect on October 21, 1940 and produced £26,000,000 revenue in the five months ending March 31, 1941, increasing the cost of living by about 4 per cent.²⁰

The wholesale purchase tax was opposed by a number of Labor members of Parliament, on the ground that it imposed an excessive burden on the poorest sections of the population, and meant peculiar hardship in London and other cities, where the autumn air raids had destroyed the homes and possessions of thousands of inhabitants.²¹ The Chancellor of the Exchequer, while admitting the validity of the argument, maintained that the Government’s various assistance and compensation schemes, including the prospective war damage bill, would partly offset the effect of the new tax.

Concentration of Production. The “concentration of production” plan, announced by the Government on March 4, 1941, is perhaps the most rigorous single project in Britain’s economic mobilization.²² This program, designed “to facilitate the fullest possible transfer of resources to war-production while maintaining exports as far as practicable,” required “the severe cutting down of civil consumption and the release of labour, materials and factory space for more essential purposes.”²³ The increasing demands of the armament industries, in the opinion of the Government, made it impractical to allow all component parts of a specific industry to continue working on a part-time basis. Such a policy not only resulted in uneconomical use of labor and failed to free factory and storage space for Government use, but it also threatened dangerous price rises because of the effect of diminished turnover on costs, and jeopardized the capital structure of many firms.

The plan was designed to embrace the 90 or more industries already subject to restriction of supplies and raw materials under previous regulations. Each “nucleus firm” kept in operation would enjoy certain privileges: its supply of raw materials would be assured; it would receive all possible government contracts; its factories would not be requisitioned for other purposes; and its workmen

20. “The Purchase Tax (Commencement) Order, 1940, dated October 3, 1940,” *Statutory Rules and Orders*, 1940, No. 1771; Sir Kingsley Wood, Chancellor of the Exchequer, *Parliamentary Debates*, House of Commons, April 7, 1941, vol. 370, no. 47, cols. 1299-1337.

21. For debate on the Order to put the tax into effect, see *Parliamentary Debates*, House of Commons, October 15, 1940, vol. 365, no. 115, cols. 621-50.

22. For details of the plan, see the speeches of Mr. Oliver Lyttleton, President of the Board of Trade, *Parliamentary Debates*, House of Commons, March 4, 1941, vol. 369, no. 32, cols. 774-78; March 27, 1941, vol. 370, no. 43, cols. 731-45; also “Concentration of Production: Explanatory Memorandum,” Cmd. 6258, 1941; and Thomas R. Wilson, “British Concentration of Production,” U.S. Department of Commerce, *Foreign Commerce Weekly*, June 14, 1941, pp. 447 ff.

23. Cmd. 6258, cited, p. 2.

16. “The Limitation of Supplies (Miscellaneous) Order, 1940, dated June 6, 1940,” *Statutory Rules and Orders*, 1940, No. 874; and many subsequent Orders.

17. *Industrial Mobilization* (New York, British Press Service, March 6, 1941, mimeograph), pp. 4-6.

18. *The Daily Telegraph*, July 19, 1940.

19. Finance (No. 2) Act, 1940, *Public General Acts*, 1939-40, 3 & 4 Geo. 6, ch. 48, sec. 18-41; *Goods Chargeable with Purchase Tax* (Commissioners Customs and Excise, Notice No. 78, March 1941).

would be eligible, so far as possible, for deferment from military service. The nucleus firm, on the other hand, would have "a clear duty to provide a measure of compensation for the firms whose factories are closed down."

Selection of the nucleus firms for each industry was regarded as the crux of the problem. The Government announced that it preferred the individual firms within an industry to work out their own arrangements, but indicated that it would make general recommendations for each industry, and would impose a settlement if any industry proved unable to reach a solution. The program was promptly inaugurated in the cotton textile industry, where a shortage of raw cotton made it necessary for the Government to restrict delivery to about 140 mills engaged on Government work and to withhold it from 60 others, many of which were compelled to close.²⁴

While the principle of concentration was generally welcomed by the British public, many details of the plan were criticized by both right-wing and left-wing opinion in Parliament and elsewhere.²⁵ A Conservative spokesman argued that the plan was not yet necessary as considerable unemployment still existed, and warned that concentration was dangerous in view of air raids and inconvenient because it required large-scale transfers of labor.²⁶ A Labor spokesman, on the other hand, urged more effective government control in order to safeguard the small manufacturer, the workman, and the consumer.²⁷ Many critics, moreover, pointed out that the plan favored the larger firms and stimulated monopoly, and that it would be difficult to "unscramble" the combinations after the war.²⁸ From a long-term point of view, in fact, this measure constitutes one of the most significant developments of the war, since it envisages the complete reorganization of British industry. The longer the war continues, the more British production will be concentrated into large units, and

the more difficult will become the position of small, closed down firms whose specialized products and trade marks will have disappeared from the market.

Rationing of Clothing. The effect of restricted supplies and the concentration of production in the textile industry was quickly demonstrated by the Government's rationing of clothing on May 31, 1941.²⁹ Each individual is allowed a yearly quota of 66 coupons, of which 20 cannot be used until after January 1, 1942.³⁰ The coupons, which relate to the quantity and not to the price of goods purchased, are valid at any store and are not transferable between individuals. Children are required to surrender fewer coupons; while clothing for children under four, men's and women's hats, second-hand clothes, workmen's overalls, and certain other articles are left unrationed. Purchases of cloth and knitting wool likewise require coupons. To protect the consumer against profiteering, stricter regulation of clothing prices—already subject to the Prices of Goods Act—was believed imminent, especially since they had increased 72 per cent from September 1939 to March 1941.³¹

LABOR PROBLEMS AND POLICY.

The formulation and execution of labor policy is vested in the Ministry of Labor and National Service.³² The Ministry is assisted by the National Joint Advisory Council, established in October 1939, consisting of 15 representatives of the Trades Union Congress and 15 of the British Employers' Confederation; and, since May 1940, by the smaller Consultative Committee, representing both organizations. Throughout the war the British unions have collaborated in preparing legislation, participated in committees in almost every sphere of activity, and shared responsibility for administering the Government's labor policy. British trade unions, relatively well unified within the Trades Union Congress—representing at the end of 1939 over 4,800,000 of Britain's 6,200,000 union members—have long since been accepted as an integral part of the national life and collective bargaining

24. Mr. Oliver Lyttleton, President of the Board of Trade, *Parliamentary Debates*, House of Commons, April 29, 1941, vol. 371, no. 54, cols. 339-41. During May 1941 the Government requested concentration plans from the following industries: toilet preparations, gloves, photo goods, sports goods, musical instruments, toys, lighters, umbrellas, plastics, combs, carpets, lace, hosiery, fountain pens, pottery, cutlery, jewelry, linoleum, leather goods, corsets, and braces. *Board of Trade Journal*, May 29, 1941, p. 347.

25. For discussion of the scheme, including comments by representatives of several different industries, see *Parliamentary Debates*, House of Commons, March 27, 1941, vol. 370, no. 43, cols. 745-828.

26. Speech of Sir Herbert Williams, Conservative M.P. and Executive Director of the Incorporated Association of Electric Power Companies, *ibid.*, cols. 745-54.

27. Speech of Mr. Emanuel Shinwell (Labor), *ibid.*, cols. 782-89.

28. E.g., "War and the 'Small Man,'" *The Times*, May 20, 1941.

29. *New York Herald Tribune*, June 1, 1941.

30. *The New York Times*, June 5, 1941. The basic schedule for men's clothing is as follows: suits, 26 coupons; shirts, 5; socks, 3; undershirts, 5; pajamas, 8; collars or ties, 1 each; gloves, 2; overcoats, 16; handkerchiefs, 1; shoes, 7. Women's clothing is rationed as follows: woolen dresses, 11; other dresses, 7; long coats, 14; short coats, 11; skirts, 7; stockings, 2; night dresses, 6; pajamas, 8; slips, etc., 4; other undergarments, 3; slippers or shoes, 5.

31. *Ministry of Labour Gazette*, April 1941, p. 86.

32. For studies of British labor policy, see John Price, *Labour in the War* (New York, Penguin Books, 1941); Frieda Wunderlich, *British Labor and the War* (New York, New School for Social Research, 1941); *The Labour Situation in Great Britain: A Survey: May-October 1940* (Montreal, International Labour Office, 1941); and *Labour in War Time* (New York, British Library of Information, January 1, 1941, mimeograph).

has been regarded as a normal procedure throughout most of British industry. Great Britain, therefore, has escaped in its wartime mobilization both the conflicts over the principle of collective bargaining and the jurisdictional disputes between labor factions which have hampered American defense preparations. The major labor controversies in Britain have concerned wages, hours, working conditions, and the "dilution" of union labor by women, youths and persons previously unemployed.

During the first eight months of the war the Chamberlain government made relatively little progress with regard to the mobilization of labor.³³ It was constantly criticized, in fact, for lacking any long-term plan and for causing undue hardship by displacing workmen from non-essential industries before they could be absorbed in the armament factories. For several months unemployment increased—from 1,294,805 in August 1939 to 1,440,923 in December—owing to the transition from peacetime to wartime production, the evacuation of London, and the general disruption of normal business. A large number of "reserved occupations" were immediately created, to protect labor in essential industries from conscription for military service.³⁴ This schedule was gradually revised and man power was reallocated, in accordance with a census of industrial employment undertaken by a committee headed by Sir William Beveridge. In September 1939 the Control of Employment Act was passed by Parliament, authorizing the Minister of Labor to forbid any employer from advertising for employees or engaging them without the Minister's consent.³⁵ This legislation, designed to prevent "poaching" in areas where labor shortages existed, was not put into effect, however, until April 1940, when it was applied to carpenters, joiners, and bricklayers in the building and civil engineering industries.³⁶

After the crisis of May 1940 a far more drastic labor policy became necessary. While the Government rarely used its vast coercive powers until the winter of 1941, it greatly accelerated the armament production and the recruitment of labor. Unemployment fell from 1,037,570 in March 1940 to 675,642 in September; and by May 12, 1941 it reached the low point of 368,988.³⁷ Throughout the summer months of 1940 the Minister of Labor, Mr. Ernest Bevin, and the Minister of Aircraft Production,

Lord Beaverbrook, made strenuous appeals to both management and workmen to make extraordinary sacrifices. Mr. Bevin relaxed the restrictions regarding working conditions imposed in collective bargaining contracts and statutes, including the Factories Act of 1937, which had fixed 48 hours as the maximum working week for women and young persons, to be reduced to 44 hours on July 1, 1939.³⁸ In many airplane factories, despite the difficulties imposed by the blackout, labor worked 70 to 80 hours weekly, while 50 to 60 hours were not unusual throughout the armament industry. Sunday rest, holidays, and vacations were eliminated completely. By early August 1940, when many of Britain's deficiencies in arms had been remedied, the Government urged gradual diminution of the excessive working week and additional rest periods wherever possible, while a weekly holiday—owing to insistence by the trade unions—became prevalent.³⁹ World War experience had clearly demonstrated the diminishing returns involved in prolonged overwork under emergency conditions.⁴⁰ "Absenteeism"—or missing a day or more of work—increased seriously in many industries during the first six months of 1941, partly because of fatigue from overwork. Employers charged, however, that workers were slacking because of the large increases in regular and overtime pay, while employees claimed that inefficient managements did not offer them regular work.

In July 1940 the Minister of Labor put into motion the machinery authorized by the Defense Regulations for settling industrial disputes without recourse to strikes.⁴¹ Accepting a plan prepared at his invitation by a joint council of employers and employees, Mr. Bevin established the National Arbitration Tribunal, which consists of a chairman and two members appointed by the Minister and two others selected by him in agreement with the Trades Union Congress and the British Em-

37. *The Manchester Guardian Weekly*, June 20, 1941. Of the May 1941 total, only 141,984 men and boys were wholly unemployed, and 148,328 women and girls; the remainder included persons temporarily unemployed or unemployed casual workers.

38. The Factories Act restrictions had been set aside in accordance with Defense Regulation 59 and Section 150 of the Act itself in many armament plants in the months immediately following the outbreak of war, but not on a general scale. For a survey, providing a comparison with World War conditions, see "Factories Act, 1937. Report on hours of Employment of Women and Young Persons in Factories during the first five months of the war," Cmd. 6182, 1940.

39. Ministry of Labour and National Service, Leaflet, July 25, 1940.

40. Max D. Kossaris, "Hours and Efficiency in British Industry," U.S. Department of Labor, *Monthly Labor Review*, June 1941, pp. 1337-46.

41. Defence Regulation 58AA, *Defence Regulations*, cited, pp. 145-47; "Conditions of Employment and National Arbitration Order, 1940, dated July 18, 1940," *Statutory Rules and Orders*, 1940, No. 1305.

33. Green, "Economic Mobilization of Great Britain," cited, pp. 96-97; and Popper and deWilde, "Wartime Economy of Britain and France," cited, pp. 112-13.

34. Ministry of Labor, *Schedule of Reserved Occupations and Protected Work* (Revision 10th April, 1941).

35. Control of Employment Act, 1939, *Public General Acts*, 1938-39, 2 & 3 Geo. 6, ch. 104.

36. "Control of Employment (Advertisements) Order, 1940, dated April 4, 1940," *Statutory Rules and Orders*, 1940, No. 522.

ployers' Confederation. The Tribunal was given jurisdiction over disputes which had not reached a settlement or had undergone excessive delays under previously established agencies of conciliation and arbitration, or disputes which the Minister of Labor on his own authority referred directly to the Tribunal. The decision of the Tribunal was to be binding on both employer and employee. Strikes and lockouts were forbidden unless the Minister of Labor had not referred the dispute to arbitration within 21 days after it was submitted to him.^{41a} The Minister was also empowered to impose terms and conditions of employment on employers, but in accordance with the standards prevailing in a given industry, trade or district; and, for the protection of trade union rights, to require the recording of any departure from normal trade union practices or statutes governing conditions of employment:

By March 1941 the Tribunal had issued 80 awards in Great Britain and 35 in Northern Ireland,⁴² while many more disputes were settled by direct negotiation or through previously established agencies. Although some strikes have occurred, the 1940 total, causing the loss of 940,000 working days, was the lowest on record since the Ministry of Labor began keeping records in 1890.⁴³ During the first three months of 1941, 256 disputes involving stoppages of work occurred, resulting in the loss of 331,000 working days, in comparison with 232 disputes, involving 449,000 work days, in the corresponding period of 1940.⁴⁴

Most of the industrial disputes that have arisen in Britain since the beginning of war have concerned wage increases. During the first sixteen months of war over 8,000,000 workers—by negotiation or arbitration—received wage increases, totaling £3,000,000 weekly.⁴⁵ In the first three months of 1941 there was a further net increase of about £770,000 a week in the full-time wages of 5,500,000 people.⁴⁶

The most significant development took place in the field of agricultural labor, for a total increase of £12,609,999 was secured during 1940 in the weekly full-time wages of all regular farm workers.⁴⁷ Whereas since 1924 minimum farm wages had been set by county committees, in April 1940

legislation was passed establishing a national minimum, to be fixed by a Central Wages Board.⁴⁸ The Board eventually set the national minimum at 48s. weekly for adult male workers, in comparison with an average of about 32s. that had previously existed under the county committees.⁴⁹ Another important change occurred during March 1941 in the status and income of dock workers, who were removed from the class of casual labor and given a minimum weekly wage of 82s. 6d.⁵⁰

These widespread wage increases, permitted by the Government because of the steady rise in the cost of living, have varied greatly in different areas and industries. According to the "Bowley Index," wages as a whole rose 18 per cent between September 1939 and March 1941, ranging from 39 per cent in agricultural labor and 32.5 per cent in the cotton industry to 7 per cent for compositors in the printing trades.⁵¹ The combination of wage increases and overtime pay in armament and related industries has probably made some workers better off than before the war, but the "real income" of the working class in general—as well as that of the upper income brackets—has undoubtedly declined.

CONTROL OF LABOR SUPPLY

One of the most difficult problems has been the training of skilled labor to meet the needs of Britain's expanding industrial program. During the first months of the war the Government inaugurated armament training centers, previously used for training the unemployed, and urged employers to train workers in their plants. The Churchill government expanded the program, planning for 40 centers operating on three shifts with an output of over 200,000 persons yearly, although the centers were handicapped by lack of equipment and instructors.⁵² By November 1940 the number of persons being trained in the Government centers was three times that of the previous May, while the training work of private employers showed similar expansion.⁵³ A man over 21 living at a Government training center is given board, lodg-

48. Agricultural Wages (Regulation) Amendment Act, 1940, *Public General Acts*, 1940-41, 4 & 5 Geo. 6, ch. 17.

49. This increase, considerably above what the cost of living increase justified, marks a notable rise in the status of farm labor, especially since village rents are relatively low and many rural workers raise much of their own food.

50. *The Times*, February 28, 1941.

51. London and Cambridge Economic Service, *Bulletin II*, vol. XIX, April 1941, p. 36.

52. Mr. Ernest Bevin, Minister of Labor and National Service, *Parliamentary Debates*, House of Commons, August 8, 1940, vol. 364, col. 384. Mr. Bevin hoped that the existing 19 centers, if adequate staff were available, would provide 100,000 trainees yearly.

53. Mr. Ernest Bevin, Minister of Labor and National Service, *ibid.*, November 19, 1941, vol. 365, no. 126, cols. 1868-69.

41a. As no penalties were specified for illegal strikes, prosecutions, which have been rare, have to take place in the criminal courts.

42. *Ministry of Labour Gazette*, April 1941, pp. 90-91.

43. *The New York Times*, April 14, 1941.

44. *Ministry of Labour Gazette*, April 1941, p. 87.

45. For detailed study, see "Changes in Working Conditions of British Labor in 1940," U.S. Department of Labor, *Monthly Labor Review*, April 1941, pp. 829-33.

46. *Ministry of Labour Gazette*, April 1941, p. 82.

47. *Labour* (London), April 1941, p. 809.

ing and a personal allowance of 8s. weekly, plus allowances for wife and children.

An acute problem arose, as in the World War, over the dilution of labor by persons—especially women—previously unemployed, or previously employed at lesser skilled tasks. To safeguard their own members, the trade unions were concerned, first, with preventing positions being filled by relatively unskilled persons before the reservoir of unemployed skilled men had been drained; and, second, with insisting that the newcomers receive the same wage rates paid to those previously employed. In the first major controversy over this question, involving the transport services, it was settled by arbitration that women tram and bus conductors between 18 and 21 should receive not less than 90 per cent of the adult male conductors' commencing wage rates and increments thereafter.⁵⁴ Women under 21, however, were to receive not less than 90 per cent of the men's rate until they reached the age of 21. Under an agreement reached in May 1940 within the engineering industry, women replacing men were to receive probationary pay for the first 32 weeks of employment, and full men's pay thereafter, provided they performed the men's duties without additional supervision or assistance. Similar arrangements were subsequently undertaken by other industries.

By the winter of 1940-41 it was clear that voluntary methods could not meet the shortages of man power in the war industries. With several million men under arms, Britain on January 29, 1941 extended military conscription to men of 18 and 19, as well as of 37, 38, 39 and 40.⁵⁵ Men on the schedule of "reserved occupations" were re-examined for transfer to more essential industries, while many men of special talents were withdrawn from the Army. As the Limitation of Supplies Orders and the new concentration of industry scheme curtailed non-essential work, it became imperative for the Government to direct more effectively the flow of labor into the proper channels.

The Government had complete power to control labor, for Defense Regulation 58A under the Emergency Powers Acts declared: "The Minister of Labour and National Service . . . may direct any person in the United Kingdom to perform such services in the United Kingdom or in any British ship not being a Dominion ship as may be specified by the direction, being services which that person is, in the opinion of the Minister, capable of performing."⁵⁶ The Minister, acting through a

"National Service Officer," was also empowered to specify the remuneration and conditions of service for such compulsory labor, provided that they accorded with conditions existing in a given district, trade, or capacity, or with standards set by collective bargaining agreements or arbitral decisions. Mr. Ernest Bevin, preferring persuasion to coercion, postponed introducing compulsory methods as long as possible, even though he was constantly being urged to impose more rigid controls over both employers and employees.

The Government finally took several drastic measures to deal with the labor problem: compulsory registration of all civilians, both male and female; the freezing of labor in essential industries; and the inauguration of compulsory service in the civilian defense forces. The first two measures were announced in principle by Mr. Bevin on January 21, 1941, and given effect by successive stages.⁵⁷ On February 24, 1941 the Minister of Labor ordered the registration of all men over 20 who at any time in the previous 15 years had worked for an aggregate of twelve months in any of 24 occupations related to shipbuilding and ship-repairing.⁵⁸ The compulsory registration of all persons not on military service was begun in April, when men of 41 to 45—above the present conscription age limits—and women of 20 were ordered to register, while other age-groups were called later.⁵⁹

Of 10,750,000 women between the ages of 16 and 44, approximately 795,000 were believed to be unmarried and available for war work, at present to be limited to seven trades.⁶⁰ The women registrants are given individual interviews by which they are assigned to war work or training for work. It was announced that women with young children, or in useful occupations, would be exempted, since the Government desired primarily to mobilize idle women without family or other responsibilities.⁶¹ Financial allowances were granted women in training either at home or away from home, but at a lower rate than those granted to men—despite the effort of women Members of Parliament of all parties to secure equalization.⁶² Meanwhile, two of

57. *Parliamentary Debates*, House of Commons, January 21, 1941, vol. 368, no. 14, cols. 94-97.

58. "Industrial Registration (No. 1) Order, 1941, dated 4 February 1941," *Statutory Rules and Orders*, 1941, No. 239.

59. *The New York Times*, March 17, 1941.

60. Of the total, 4,595,000 were already in paid employment and 5,360,000 were married. For classification by age groups, see "Registration of Woman-Power," *British Press Service*, March 27, 1941, typewritten.

61. Broadcast of Mr. Ralph Assheton, Parliamentary Secretary to the Ministry of Labor, April 6, 1941. (British Library of Information, mimeograph.)

62. For schedules, see *The Daily Telegraph*, March 18, 1941; and "Engineering Training for Women: Some Simple Facts," Ministry of Labour and National Service, Leaflet, PL/1941.

54. Price, *Labour in the War*, cited, pp. 74-77.

55. *Bulletin of International News*, February 8, 1941, p. 168. The class of 19 was called in February and the class of 37 in April. *New York Herald Tribune*, March 4, 25, 1941.

56. *Defence Regulations*, cited, pp. 144-45.

the women's services—the Auxiliary Territorial Service and Women's Auxiliary Air Force—were given full military status on April 10, 1941.⁶³

To supplement the compulsory registration system, the Minister of Labor issued an Essential Work Order making it possible for him to prevent any shifts of labor within certain industries.⁶⁴ For any industry which he considers "essential for the defense of the realm or efficient prosecution of the war or life of the community," the Minister can order that official permission must be obtained—through a National Service Officer—before any employer can dismiss a workman, except for serious misconduct, or before an employee can leave his post. Provision is made for appeal by either employer or employee to a local appeal board, composed of an official, as chairman, and representatives of both employers and workers. The Minister, moreover, can set a minimum weekly wage in any industry covered by an Essential Work Order. Orders have been issued thus far for ship-building, engineering, construction, coal mining, and the merchant marine.⁶⁵

A further step toward the full mobilization of man power was taken by the Government on March 26, 1941, when it introduced legislation providing compulsory recruitment for the Civil Defense Forces.⁶⁶ Pointing out that the civil defense forces were understaffed in many localities, the Minister of Labor asserted that the measure places them on the same footing as the armed forces, with identical provisions for conscription and for conscientious objectors. Men called up for service would in the future be able to choose between the two services; and probably many previously rejected for military service would be conscripted for civil defense. While most of the Civil Defense Forces—totaling about 1,500,000 with an additional 1,500,000 fire-bomb fighters, all largely on a part-time, voluntary, unpaid basis—would remain under the local authorities and regional commissioners, they could be supplemented where necessary by squads organized under this legislation.⁶⁷

For debate on women's allowances, see *Parliamentary Debates*, House of Commons, March 20, 1941, vol. 370, no. 40, cols. 315-400.

63. *The New York Times*, April 11, 1941. The third group, Women's Royal Naval Service, remained on a quasi-military basis.

64. "The Essential Work (General Provisions) Order, 1941," *Statutory Rules and Orders*, 1941, No. 302. For interpretation, see *Ministry of Labour Gazette*, March 1941, pp. 50-51.

65. "The Essential Work (Ship-building and Ship-repairing) Order, 1941," *Statutory Rules and Orders*, 1941, No. 300; and subsequent Orders.

66. National Service Act, 1941, *Public General Acts*, 1940-41, 4 & 5 Geo. 6, ch. 15; Speech by Mr. Ernest Bevin, Minister of Labor, *Parliamentary Debates*, House of Commons, March 26, 1941, vol. 370, no. 42, cols. 603-14.

67. Mr. Herbert Morrison, Home Secretary, *ibid.*, col. 659.

THE FOOD PROBLEM

Owing to shipping shortages, the food problem has remained one of the most critical aspects of Britain's entire wartime economy. In peacetime more than half of Britain's food came from overseas; and of the remainder, half was produced from imported feeding stuffs and fertilizers.⁶⁸ Britain's population had increased from 41,000,000 in 1917 to 47,750,000 in 1940, while its area available for cultivation had declined by 2,500,000 acres.⁶⁹ To meet this serious situation, the Government has sought both to increase production and to control distribution and consumption.

To increase agricultural production the Government has directed the ploughing of 3,750,000 additional acres of cultivable land, in comparison with 2,300,000 acres in the World War, and brought between 100,000 and 150,000 acres of derelict or semi-derelict land into cultivation.⁷⁰ Nearly 90,000 tractors have been provided British farmers, moreover, an increase of 60 to 70 per cent since the outbreak of war, and large-scale drainage projects were undertaken in many parts of the country. This policy is affecting the quality as well as the quantity of output, for the Government is promoting the production of wheat, potatoes and vegetables at the expense of meat.

A shortage of farm labor has constituted one of the most serious problems faced by British agriculture. The Ministry of Agriculture, which in May 1941 had a special force of 3,000 civilians at work and 3,000 additional members of the Pioneer Corps of the Army at work on the land—under the direction of the county agricultural committees hoped to increase this number to 15,000 by the end of the summer. Schools planned to stagger their holidays for farm work; the universities agreed to recruit undergraduates for the harvest season; and the Woman's Land Army included over 11,000 members, with an additional 1,100 in training.⁷¹

Critics of the Government's agricultural policy charge, however, that the acreage under cultivation is still insufficient for present and future needs.

68. Major Gwilym Lloyd George, Parliamentary Secretary to the Ministry of Food, *Parliamentary Debates*, House of Commons, April 30, 1941, vol. 371, p. 55, col. 456.

69. In the World War there were 1,195 people for every 1,000 acres of cultivated land; in 1940, 1,521 people for every 1,000 acres—an increase of over 25 per cent. Mr. R. S. Hudson, Minister of Agriculture, *ibid.*, April 3, 1941, vol. 370, no. 46, col. 1206.

70. Duke of Norfolk, Joint Parliamentary Secretary to the Ministry of Agriculture, *The Times*, May 22, 1941. According to this spokesman, the portion of cultivated land under crops increased from 28 per cent in 1939 to 40 per cent in the spring of 1940, in comparison with about 32 per cent in 1914-16 and 38 per cent in 1918, after the campaign for production promoted by the Lloyd George government.

71. *The New York Times*, June 9, 1941.

They assert that large areas, including many estates, deer parks, golf courses, and private lawns and gardens have not been placed under cultivation, while the Army has unnecessarily spoiled much valuable land.⁷² It is frequently alleged that the Government has shown lack of direction in its farm labor policy, that the county agricultural committees contain many incompetent members, and that there has been inadequate coordination between the Ministries of Agriculture, Food, Labor, Supply, and the Treasury.⁷³

In order to regulate food supplies and to provide an equitable distribution among the entire public, the Ministry of Food—established shortly after the outbreak of war—was given complete control over the distribution and sale of essential foodstuffs. According to an official spokesman, the Ministry has become the largest single trading organization in the world, its trading accounts averaging £600,000,000 annually.⁷⁴ Its imports, arranged in collaboration with the Import Executive, have been confined “to those commodities which were regarded as essential to the nation’s health and well-being”—primarily meat, sugar, tea, oils and fats, supplemented by cereals, condensed milk and milk powders, eggs, dried fruits and fruit pulps, and animal feeding-stuffs. Statistics are not available, however, regarding imports of foodstuffs, storage of reserves, or domestic production.

British food rationing which began on January 8, 1940, has been designed to cover those items of ordinary diet which are most readily controlled through imports or large-scale domestic purchases. The standard weekly ration per person, which has fluctuated at intervals in accordance with the availability of domestic and imported supplies, included the following early in the summer of 1941: bacon and ham, 4 oz.; meat, 1s. 2d.; cooking fats, 2 oz.; butter (2 oz.) and margarine, 6 oz.; cheese, 2 oz.; and tea, 2 oz.⁷⁵ The meat ration, based on price rather than quantity, has undergone unusually wide fluctuations, ranging from 2s. 6d. on September 30, 1940 to 1s. 6d. on January 8, 1941.⁷⁶ Poultry, game, rabbits, and offal (except during the winter months of 1941), canned meats, and many other articles, however, are not rationed, giving rise to frequent charges that the rich are able to escape

the rationing restrictions by buying unrationed and often expensive foods.

The Ministry of Food was compelled to tighten its rationing regulations throughout the first six months of 1941. The rations of the armed forces, which previously had exceeded those of civilians, were reduced to approximately the civilian level on March 1, 1941.⁷⁷ A group of “preserves” were rationed in March 1941, each person being allowed 8 oz. of jam, marmalade, syrup or treacle each calendar month.⁷⁸ Cheese was added to the list of rationed foods on May 1, 1941, and the allotment of cheese to schools and canteens severely cut; an extra allowance was permitted, however, to farmers, miners, and certain railway workers.⁷⁹ In May 1941 the Ministry of Food began to limit the distribution of milk and eggs, but without resort to ration cards, and to control the price of fish.⁸⁰ Virtually all fruits and many vegetables, moreover, became scarce after December 1940.

Some of the harshest public criticism of Government food policy has concerned the lax control over restaurants and clubs, on the ground that such establishments, by providing elaborate meals and by not being required—as in the last war—to collect ration coupons from diners, have given unjust privileges to the rich.⁸¹ In February 1941, however, the Government ordered that no restaurant might serve more than one main dish and one subsidiary dish, or two subsidiary dishes, at one meal;⁸² and it subsequently began reducing the supplies available to restaurants. Government spokesmen pointed out, moreover, that the widespread prevalence of “eating out”—in comparison with the World War—had made it more difficult to supervise this problem, and replied that the rich were privileged in respect of quality rather than quantity of food.⁸³ The growth of canteens and community feeding agencies, such as the “British Restaurants,” has extended the privilege of eating without ration cards to the lowest income groups.

The gradual rise in food prices, by about 23 per cent since September 1939, has made it difficult for many Britishers to buy their full rations. In an

77. *The New York Times*, March 2, 1941.

78. *Ibid.*, March 15, 1941. The ration was increased to 1 lb., beginning August 1. *The Times*, June 14, 1941.

79. *Ibid.*, May 4, 1941.

80. *New York Herald Tribune*, May 29, 1941. For the distribution of eggs scheme, see *The Times*, June 23, 1941.

81. *The Economist*, January 11, 1941, pp. 39-40.

82. Food (Restrictions on Meals in Establishments) Order, 1941. Ministry of Food, No. 23, February 26, 1941, mimeograph.

83. Major Gwilym Lloyd George, Parliamentary Secretary to the Ministry of Food, *Parliamentary Debates*, House of Commons, April 30, 1941, vol. 371, no. 55, col. 460. According to Major Lloyd George, restaurants and other public eating places account for only 8 per cent of the total meat consumed.

72. Speech of Earl Winterton (Conservative), *Parliamentary Debates*, House of Commons, April 3, 1941, vol. 370, no. 46, cols. 1195-1205.

73. Speech of Mr. David Lloyd George (Liberal), *ibid.*, cols. 1233-46.

74. Major Gwilym Lloyd George, Parliamentary Secretary to the Ministry of Food, *Parliamentary Debates*, House of Commons, April 30, 1941, vol. 371, no. 55, col. 455.

75. “Rationed foods (for week beginning March 10th, 1941), as announced to date,” Minister of Food, *Bulletin No. 75*, type-written; *The New York Times*, June 14, 1941.

76. *The Daily Telegraph*, April 27, 1941.

effort to keep down the price of essential foods, the Ministry of Food has subsidized wheat, milk and meat, at a cost averaging £100,000,000 annually. This policy, which kept the general cost of living index down by 8 to 10 per cent, was expected to be applied—in accordance with the Chancellor of the Exchequer's budget speech—both to additional foodstuffs and to other essential commodities. Frequent public protests have been expressed over the failure of the Government to prevent increases in food prices and to check speculation in food by wholesale dealers.⁸⁴ The Ministry of Food, however, has maintained that its 1,500 food control officers have made strenuous efforts to end hoarding, speculation, profiteering, and "black market" transactions, having begun 1,160 prosecutions in February 1941, 1,441 in March, and 2,300 in April.⁸⁵

PRICE CONTROL

The Government has sought to control the price not only of food, regarding which the principles of rationing and price-fixing are being steadily extended, but also of most other goods and services. Under the Price of Goods Act of 1939 the Government was authorized to fix prices of certain commodities at the level of August 21, 1939, or to permit reasonable increases owing to higher costs.⁸⁶ The measure was supplemented in June 1941 by the legislation empowering the Government to impose maximum prices for clothing, boots, shoes, furniture moving, tailoring, laundering, repairing, and second-hand sales.⁸⁷ It was made imperative by the rationing of clothing and a 72 per cent rise in clothing prices between September 1939 and March 1941.⁸⁸ The general cost of living, which increased about 28 per cent during this period, was also checked through the control of electricity, gas, water and fuel rates by the Board of Trade; the control of shipping and transport rates by the respective Ministries; and the control of rents, which have increased only 1 per cent since the outbreak of war, by the Ministry of Health; of raw material prices by the Ministry of Supply; and of retail prices, other than food, by the Board of Trade.

Although the Government has not yet at-

tempted any over-all system of price controls, the Chancellor of the Exchequer declared in his budget speech that he intended to check inflation by subsidizing essential goods and services and achieving stability of prices and wages at present levels.⁸⁹ Some such stabilization is generally viewed as imperative, since in the first 20 months of the war the wholesale price of food rose 60 per cent and that of industrial materials and manufactures 54.1 per cent—owing in part to the rise in import prices caused by depreciation of the pound and higher shipping rates. A major factor has been the steady rise in wage rates, virtually unchecked by the Government. Since the wages of about 3,000,000 employees are tied by contract to the cost-of-living index, to a commodity price, or to an employer's profits, wages and prices continue to mount in an unending spiral. Sir Kingsley Wood maintained, however, that if the cost-of-living index could be stabilized at 25-30 per cent above the pre-war figure, then wages could be kept at about their present level.

FINANCE

With Britain's wartime expenditures exceeding even those of the last year of the World War and averaging £13,300,000 (\$53 million) daily during the first three months of 1941, the problem of finance has become increasingly important.⁹⁰ During the fiscal year ending March 31, 1941, Britain spent a total of £3,884,288,000 (\$15.5 billion), of which about £3,220,000,000 (\$12.9 billion) went for the armed forces and civil defense. Expenditure on the civil departments and debt services showed little change from previous years.

Expenditures for the 1941-42 fiscal year were estimated at £4,206,957,000 (\$16.8 billion)—including about £3,500,000,000 for war purposes—although the actual total was generally expected to prove considerably higher, perhaps £4,500,000,000 (\$18 billion). This estimated expenditure for 1941-42, while including purchases in British Empire countries and elsewhere, does not make allowance for supplies to be received from the United States under the Lend-Lease Act or previous contracts.

Since the population of the United States is 2.8 times that of the United Kingdom, equivalent expenditures by the American government would be

84. *The New York Times*, January 12, 1941; *The Economist*, May 3, 1941, pp. 584-85.

85. Lord Woolton, Minister of Food, *The Times*, May 29, 1941.

86. Price of Goods Act, 1939, *Public General Acts*, 1938-39, 2 & 3 Geo. 6, ch. 118. For a recent survey, see A. Wyn Williams, "Price Control in England," *The New Republic*, July 28, 1941, pp. 112-14.

87. Goods and Services (Price Control) Bill, 1941. *The Economist*, June 14, 1941.

88. *Ministry of Labour Gazette*, April 1941, p. 86.

89. *Parliamentary Debates*, House of Commons, April 7, 1941, vol. 370, no. 47, col. 1323.

90. "Financial Statement (1941-42)," House of Commons, April 7, 1941; address of Sir Kingsley Wood, Chancellor of the Exchequer, *Parliamentary Debates*, House of Commons, April 7, 1941, vol. 370, no. 47, cols. 1299-1337; and "An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938 and 1940," Cmd. 6261, 1940. For analysis, see *The Economist*, April 5, 1941, pp. 437-41; and April 12, 1941, pp. 475-77; and "The British Budget, 1941-42," U.S. Department of Commerce, *Foreign Commerce Weekly*, July 12, 1941, pp. 3-6.

in the neighborhood of \$44.4 billion for 1940-41, and \$47.8 billion for 1941-42.^{90a} In contrast to these comparative figures, however, the United States government actually spent \$12.7 billion in 1940-41, and expected to spend a minimum of \$22.2 billion in 1941-42.⁹¹

To meet these heavy expenditures Britain has utilized taxation, borrowing, and liquidation of overseas resources. As a result of increased taxes imposed in the budget of April 1940 and the supplementary budget of July 1940, the Government's revenue for the past fiscal year reached the record peak of £1,408,867,000 (\$5.6 billion), of which £791,714,000 came from personal and company taxes, and £529,039,000 from customs and excise.^{91a} The deficit between expenditures and revenue, amounting to £2,475,421,000 (\$9.9 billion), was met in part by the borrowing of £1,320,000,000 from the public—through war bonds, savings bonds, and savings certificates—and the remainder from the money market. Under the direction of the National Savings Committee, headed by Lord Kindersley, virtually every community in Great Britain held a "war weapons week" for the solicitation of war loans. The campaign in London, held during the week of May 19, 1941, raised over £120,000,000 (\$480 million). A considerable proportion of these large borrowings from both the money market and the public represented the liquidation of overseas capital, implying many far-reaching changes in Britain's national economy, which traditionally has been nourished by the interest and dividends from foreign investments. During the first 18 months of war, in fact, the Government spent £1,021,000,000 (\$4 billion) from overseas sources—including pre-war assets of the Exchange Equalization Fund, sale of overseas securities, and use of the net increase in overseas sterling balances in London.

The primary budgetary problem has not been the technical task of meeting the deficit between expenditure and revenue, but the larger need of

siphoning off the increased civilian purchasing power effected by government spending, preventing a rise in civilian consumption to the detriment of the war machine, and checking an inflationary "vicious spiral" of prices and wages. It was not until April 7, 1941 that the Government faced the crucial issue of making finance a weapon of economic mobilization.⁹² In his budget speech and a special White Paper⁹³ accompanying the usual "Financial Statement," the Chancellor of the Exchequer undertook a thorough examination of the whole problem of inflation. After estimating the "domestic expenditure" for 1941-42 at £3,700,000,000 (\$15 billion)—that is, Government expenditures within the United Kingdom that create civilian purchasing power—Sir Kingsley Wood calculated that this total would be offset by several different factors.^{93a} These offsets, totaling £3,158,000,000 (\$12.6 billion), fell £542,000,000 short of meeting the estimated "domestic expenditure." It was necessary for the Government, according to Sir Kingsley Wood, to close this "inflationary gap."

The Chancellor of the Exchequer proposed to close the gap by securing additional revenue of £252,000,000 (\$1 billion) and increasing personal savings by £200,000,000 or £300,000,000. The only tax increase incorporated in the new finance bill concerned income taxes, with an ingenious adaptation of the "Keynes plan" for compulsory savings or deferred payments.⁹⁴ The schedules were revised to bring in two million new taxpayers. The basic income tax rate was raised from 42.5 per cent to 50 per cent; and the reduced rate applying to the first £165 (\$660) of taxable income was increased from 25 to 32.5 per cent. The exemption limit of liability to income tax was lowered from £120 to £110 (\$480 to \$440). A second set of changes involved reductions in the personal allowances and in the earned income credit. The personal allowance of a single taxpayer was reduced from £100 to £80 (\$400 to \$320), and that of a married taxpayer from £170 to £140 (\$680 to \$560). The earned income allowance was reduced from one-sixth of earned income, with a maximum allowance of £250, to one-tenth of earned income, with a maximum of

90a. Because of the difference in price levels and fiscal systems, this estimate of equivalent expenditures is only a rough approximation. That it is not too inaccurate is indicated by another computation. In the calendar year 1940 British government expenditures amounted to £3,339,900,000, which on a per capita basis would be equivalent to about \$37.9 billion for the United States. British government expenditure represented 48.7 per cent of "gross national income at market prices" in 1940. (*The Economist*, April 12, 1941, pp. 489-90.) A similar proportion of United States "national income," officially estimated at \$73.8 billion in 1940, would amount to \$35.9 billion.

91. Fiscal year ending June 30. The 1941-42 estimate was made on June 1, 1941. *Congressional Record*, July 14, 1941, vol. 87, no. 129, p. A3613.

91a. During the first eighteen months of the war the total increase in taxation, £788,000,000, amounted to more than the annual average of whole taxation revenue over the period 1926 to 1936. Captain H. F. C. Crookshank, Financial Secretary to the Treasury, *The Times*, May 20, 1941.

92. For background, see Green, "Economic Mobilization of Great Britain," cited, pp. 92-95; and Popper and deWilde, "Wartime Economy of Britain and France," cited, pp. 116-19.

93. Cmd. 6261, cited.

93a. Tax revenue, on existing rates, £1,636,000,000; drafts on domestic capital (goods drawn out of stock and available to the Government), £480,000,000; extra-budgetary receipts, through unemployment insurance contributions, etc., £180,000,000; savings of local authorities, institutions and companies, £262,000,000; personal savings, £640,000,000; and increase in tax accruals, that is money reserved for future tax payments, minus £40,000,000.

94. John Maynard Keynes, *How to Pay for the War* (New York, Macmillan, 1940).

£150. The tax payable by these two reductions, however, will be credited to the taxpayer in the Postal Savings Bank and returned to him after the war. This scheme fulfills the dual objective of curtailing civilian consumption and providing a "cushion" for the post-war depression.

A second innovation in the new budget utilized the Keynes plan with regard to companies, which have been subjected to an excess profits tax of 100 per cent since April 1, 1940. This measure, designed to "take the profit out of war" and prevent the creation of wartime millionaires which characterized the World War, had been widely criticized as causing undue hardship to many companies.⁹⁵ Since excess profits were calculated on the basis of the pre-war years, 1936, 1937 and 1938, it meant that companies suffering depression in that period or young companies just beginning operations were penalized more severely than those which had enjoyed relative prosperity before the war and had been well established in business. The excess profits tax also cut dangerously into the liquid reserves of many firms, and made it difficult, and often impossible, for companies to set aside reserves for the post-war period. While the 1941-42 budget retained the principle of the 100 per cent excess profits tax, it provided that 20 per cent should be credited to the individual company for return in the post-war period—to be used for purposes of reconstruction. Unlike the credits allowed the individuals, however, the company credit when returned will be subject to income tax.

While the 1941-42 budget was generally welcomed as the most realistic and imaginative contribution of the Government in the financial field since the war began, it was criticized in some quarters as being overly optimistic.⁹⁶ Many critics believed that the Chancellor of the Exchequer, as always in this war period, underestimated future expenditures, and that he had exaggerated the probable checks to inflation from increased personal savings and other sources.

CONCLUSION

The experience of Great Britain offers several lessons regarding the general problem of mobilizing the resources of a nation within the framework of democratic government. It becomes increasingly apparent, in the first place, that preparation for modern, all-out warfare requires far more time,

95. *The Economist*, November 7, 1940, pp. 552-53; November 9, 1940, pp. 581-82.

96. "The First War Budget," *The Economist*, April 12, 1941, pp. 475-77.

effort and sacrifice than was envisaged a few years ago. Britain's economic mobilization for war, which began with the rearmament program of 1937 and was constantly expanded in subsequent years, is still incomplete. Full utilization of man power and material is difficult to accomplish, secondly, until the entire population realizes that the nation is in immediate peril. While Britain's wartime mobilization was well under way by the spring of 1940, it lacked drive and direction until the fall of France. Whereas the French were overwhelmed suddenly and completely, the British—awakened by Dunkirk and given a brief breathing spell—were able to expand and accelerate their industrial production sufficiently to meet the severe tests of later months. Britain's progress during the past year suggests, thirdly, that wartime mobilization must be based on the wholehearted cooperation of all groups in the community and confidence among all citizens that the burdens and sacrifices of war are being distributed as equitably as possible. Although the Labor party supported the war and the trade unions did not shirk their responsibility, the Chamberlain régime was never able to provoke the popular response that the Churchill government—representing all parties—was later able to achieve.

The trend of events in Britain also indicates that voluntary methods, while adequate in the early stages of defense preparations, must eventually give way to compulsion. Unless some form of conscription is adopted for service on the home front as well as in the armed forces, patriotic citizens are not only subjected to more danger and hardship than the unpatriotic, but their efforts are not efficiently utilized. The longer the war continues, moreover, the more extensive becomes the area of government control and coercion. Every food ration, price control, or industrial regulation creates the need for some additional element of restriction. The British public, in fact, has consistently been ahead of its government in this regard, demanding wider planning and direction, greater regimentation of industry and labor, and even heavier taxation. The Government, preferring improvisation and piecemeal legislation, has not yet adopted any general policy regarding prices and wages, and—until the budget of April 7, 1941—it had not dealt comprehensively with the financial problem. Great Britain, however, is now well on its way toward becoming an "island fortress" economy, with every aspect of its national life directed toward prosecution of the war.

The August 15 issue of FOREIGN POLICY REPORTS will be

SOCIAL AND POLITICAL CHANGES IN WARTIME BRITAIN

by J. F. Green